

**REPORT OF THE AUDIT OF THE
FLEMING COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Larry Foxworthy, Fleming County Judge/Executive
Honorable Marilyn Spencer, Fleming County Clerk
Members of the Fleming County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Fleming County, Kentucky, for the year ended December 31, 2002.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Fleming County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FLEMING COUNTY
CLERK**

**For The Year Ended
December 31, 2002**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
TELEPHONE (502) 499-9088
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FLEMING COUNTY CLERK

**For The Year Ended
December 31, 2002**

Ross and Company, PLLC has completed the Fleming County Clerk's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$5,150 from the prior calendar year, resulting in excess fees of \$88,835 as of December 31, 2002. Revenues increased by \$47,104 from the prior year and disbursements increased by \$41,954.

Report Comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

On April 2, 2002, \$131,410 of the Fleming County Clerk's deposits of public funds were uninsured and unsecured by bank securities or bonds.

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Fleming County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

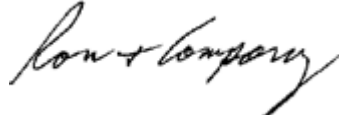
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In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -
July 25, 2003

FLEMING COUNTY
MARILYN SPENCER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Fees For Services		\$	6,355
Fiscal Court			4,634
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	381,123	
Usage Tax		1,453,340	
Tangible Personal Property Tax		884,110	
Licenses-			
Fish and Game		14,543	
Marriage		4,451	
Deed Transfer Tax		25,803	
Delinquent Tax		47,254	2,810,624
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	9,918	
Real Estate Mortgages		25,168	
Chattel Mortgages and Financing Statements		53,478	
Powers of Attorney		642	
All Other Recordings		15,747	
Charges for Other Services-			
Copywork		5,476	110,429
Other:			
Refunds	\$	6,537	
Miscellaneous		3,815	10,352
Interest Earned			980
Total Receipts		\$	2,943,374

The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY
 MARILYN SPENCER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 287,722

Usage Tax 1,408,620

Tangible Personal Property Tax 308,517

Licenses, Taxes, and Fees-

Fish and Game 14,123

Delinquent Tax 5,622

Legal Process Tax 12,693

Marriage Licenses 1,290 \$ 2,038,587

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 98,943

Delinquent Tax 9,266

Deed Transfer Tax 24,513 132,722

Payments to Other Districts:

Tangible Personal Property Tax \$ 440,180

Delinquent Tax 20,630 460,810

Payments to Sheriff

2,091

Payments to County Attorney

5,409

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 92,424

Part-Time Salaries 4,759

Contracted Services-

Advertising 78

Printing and Binding 9,971

Materials and Supplies-

Office Supplies 10,070

The accompanying notes are an integral part of this financial statement.

Other Charges-

Debt Service:

Total Disbursements	\$ 2,785,129
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Excess Fees		\$	95,986
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		2,965	6,565

Excess Fees Due County for 2002		\$ 89,421
Payments to County Treasurer- January 21, 2003	\$ 78,835	
July 25, 2003	10,586	89,421

Balance Due at Completion of Audit	\$	0
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The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the calendar year.

FLEMING COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of, April 2, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$131,410 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of April 2, 2002.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	79,820
Uncollateralized and uninsured	<u>131,410</u>
Total	<u><u>\$ 311,230</u></u>

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$23,750. Received interest of, \$15 in calendar year 2002. Funds totaling \$0 were expended during calendar year 2002. The unexpended grant balance is \$23,765 as of December 31, 2002.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 5. Leases

The Clerk's office is committed to the following lease agreements as of December 31, 2002:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2002</u>
Xerox Fax	\$41.45	5 years	March 2003	\$427.50
Xerox Copier	332.70	5 years	July 2003	1,968.42

COMMENTS AND RECOMMENDATIONS

FLEMING COUNTY
MARILYN SPENCER, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 2, 2002, \$131,410 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Clerk's Response:

She has taken appropriate action

INTERNAL CONTROL - REPORTABLE CONDITION:

The County Clerk's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. However, Ross & Company, PLLC has judged the lack of an adequate segregation of duties as a separate reportable condition.

County Clerk's Response:

I understand.

PRIOR YEAR:

The County Clerk's Office Lacks Adequate Segregation Of Duties

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Fleming County Clerk for the year ended December 31, 2002, and have issued our report thereon dated July 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fleming County Clerk's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fleming County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

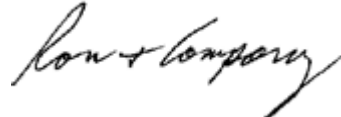
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company

Audit fieldwork completed -
July 25, 2003

